

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 923 - Department of Revenue Policy and Technical Bill (LSB 1264 HV.1)
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Fiscal Note Version – As Amended and Passed by the House

Description

House File 923 provides policy and technical administration changes in the administration of tax laws by the Department of Revenue. **Division I** pertains to tax administration policy and technical changes, and **Division II** pertains to technical and policy changes to cigarette and tobacco tax law.

Background

The Bill has two divisions and 49 sections, four of which are expected to have a fiscal impact. The fiscal note addresses those sections of the Bill.

Assumptions

Sections 18, 27, 40, and 48 are expected to have a fiscal impact as detailed below.

- **Section 18** extends the sales tax on service charges levied by banks doing business in Iowa that are not regulated by either federal or Iowa authorities. The average amount of retail sales tax paid by banks in FY 2006 was \$5,060 per bank. The FY 2006 Annual Report of the Superintendent of Banking notes that 93 bank offices were operated by State banks chartered outside of Iowa. Estimates for FY 2008 and FY 2009 assume the same amount of impacted banks and average amount of retail sales tax paid by banks as the FY 2006 amount.
- **Section 27** changes the standing appropriation of \$115,000 from the General Fund provided to the Department of Revenue for the enforcement of the cigarette tax. The change includes an unlimited standing appropriation from the State Treasury to carry out the enforcement of the cigarette tax. It is estimated that the Department will need \$152,500 in FY 2008 and \$158,800 in FY 2009 to fully fund the enforcement.
- **Section 40** changes the tax rate on cigars to 50.0% of the wholesale price of the price of a cigar or \$0.50 per cigar, whichever is less. As approved and enacted in SF 128 (Cigarette and Tobacco Tax Increase Act), the tax rate on cigars is 22.0% of the wholesale cost plus an additional 28.0% of the wholesale cost or \$0.50 per cigar, whichever is less. Based on data from the report, *The Tax Burden on Other Tobacco Products 2005*, the estimate assumes that premium cigars accounted for approximately 4.0% and non-premium cigars accounted for approximately 23.0% of the total other tobacco sales tax revenue prior to the tax increase in Iowa.
- **Section 48** provides that cigar tax paid above \$0.50 per cigar between March 15, 2007, and the effective date of this Bill, be refunded. Refund claims must be filed prior to October 1, 2007. Assumes that the amount refunded retroactive to March 15, 2007, will be claimed in FY 2007.

Section 7 adds that noncash contributions may be made by a taxpayer for the school tuition organization tax credit. The tax credit is currently capped at \$5.0 million a year and adding noncash contributions is not expected to change the fiscal impact in future years. The other sections of the Bill are not expected to generate any fiscal impact.

Fiscal Impact

The estimated impact of **Section 18** is an increase of \$471,000 in sales tax revenue in FY 2008 and FY 2009.

The estimated impact of **Section 27** is an increase in the amount appropriated to the Department of Revenue. The Department estimates the amount needed to enforce the cigarette tax law will be \$152,500 in FY 2008 and \$158,800 in FY 2009. This is an increase of \$37,500 in FY 2008 and \$43,800 in FY 2009 in the appropriation amount above current law and a General Fund decrease.

The estimated impact of **Sections 40 and 48** will be an increase in tobacco tax revenue of \$100,000 in FY 2007, \$132,000 in FY 2008, and a minimal impact in FY 2009. The estimates are compared to the estimates made in SF 128 (Cigarette and Tobacco Tax Increase Act) which was passed and enacted earlier this Legislative Session.

The overall General Fund impact is an increase of \$97,000 in FY 2007, \$566,000 in FY 2008, and \$424,000 in FY 2009.

<u>Estimated General Fund Impact Compared to Current Law</u>				
	<u>FY 2007</u>		<u>FY 2008</u>	<u>FY 2009</u>
Banking Sales Tax	\$ 0	\$	471,000	\$ 471,000
Cigarette Tax Enforcement	\$ 0	\$	- 37,500	\$ - 43,800
Cigar Tax	\$ 97,091	\$	132,215	\$ - 2,826
Total G.F. Impact of Bill	\$ 97,091	\$	565,715	\$ 424,374

Sources

Iowa Department of Revenue
The Tax Burden on Other Tobacco Products 2005
LSA Calculations

/s/ Holly M. Lyons

April 27, 2007

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
